

Message Text

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 7104

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMCONSUL HONG KONG

AMEMBASSY JAKARTA

AMEMBASSY MANILA

USLO PEKING

AMEMBASSY RANGOON

AMEMBASSY SINGAPORE

AMEMBASSY WELLINGTON

CINCPAC

C O N F I D E N T I A L SECTION 1 OF 2 KUALA LUMPUR 2596

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: PFOR MARR ECON MY

SUBJECT: MALAYSIA - TRENDS, PROBLEMS AND OPPORTUNITIES:
SECOND QUARTER 1974

REF: KUALA LUMPUR 0854 (NOTAL)

1. SUMMARY: DURING SECOND QUARTER 1974 MALAYSIA CONTINUED
TO PRESENT PICTURE OF POLITICAL AND ECONOMIC SELF-CONFIDENCE
AS MAINTENANCE OF CIVIC ORDER, ECONOMIC PROGRESS AND REASON-
ABLE DEGREE POLITICAL FREEDOM PROVIDED BASIS FOR CONTINUA-
TION OF INTERNAL STABILITY. ON FOREIGN AFFAIRS SIDE, PRIME
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MINISTER'S TRIP TO CHINA AND ESTABLISHMENT DIPLOMATIC

RELATIONS CLIMAXED FIVE-YEAR CAMPAIGN TO VALIDATE MALAYSIA'S NON-ALIGNED CREDENTIALS BY CREATING TIES WITH ALL CAMPS. AT SAME TIME, ALTHOUGH MALAYSIAN-PHILIPPINE FRICTIONS INCREASED SOMEWHAT AS RESULT GOM REFUSAL ACKNOWLEDGE OR NEGOTIATE OVER ITS ALLEGED ROLE IN SOUTHERN PHILIPPINES DISTURBANCES, SEVENTH MEETING OF ASEAN FOREIGN MINISTERS SHOWED POSITIVE PROGRESS TOWARD GREATER REGIONAL INTEGRATION, ALSO A KEY ELEMENT IN MALAYSIAN POLICY. INTERNALLY, PROSPERITY CONTINUES BUT INFLATION HAS BECOME A SERIOUS PROBLEM. WHILE WE SEE SIGNS OF WEAKNESS IN GOVT DECISION-MAKING PROCESSES THAT COULD BE HARMFUL IN LONG RUN, COUNTRY AT MID-YEAR REMAINED PROSPEROUS AND TRANQUIL, ENSURING SUCCESSFUL OUTCOME FOR TUN RAZAK AND HIS NATIONAL FRONT IN GENERAL ELECTIONS EXPECTED IN JULY-SEPTEMBER TIME FRAME. END SUMMARY.

2. TRENDS:

A. INTERNAL: MALAYSIA CONTINUED TO REFLECT PROSPERITY AND TRANQUILITY DURING SECOND QUARTER OF 1974.

(1) EXPORT EARNINGS, FOREIGN INVESTMENT, EXPANDING INDUSTRIAL BASE, NEW OFFSHORE OIL AND GAS DISCOVERIES REMAINED HEALTHY AND STRONG DESPITE INCREASED RATE OF INFLATION.

(2) DOMESTIC POLITICAL SITUATION CONTINUED FAVORABLE TO GOVT WITH ESTABLISHMENT OF NATIONAL FRONT ORGANIZATION FOR GENERAL ELECTION IN THIRD QUARTER.

(3) GOVT'S INTERNAL SECURITY MACHINERY AND POLICY WERE VINDICATED BOTH BY SUCCESS IN FRUSTRATING COMMUNIST TERRORIST ATTEMPT TO ESTABLISH BASE IN CENTRAL PENINSULAR MALAYSIA AND IN SARAWAK BY CONTINUING PROGRESS IN PERSUADING 80 PERCENT OF MEMBERS ON NORTH KALIMANTAN COMMUNIST PARTY (KNCP) TO ABANDON ARMED STRUGGLE.

B. FOREIGN:

(1) REGIONAL TIES--FOUNDATION OF GOM FOREIGN POLICY--SHOWED CONTINUED AND GROWING STRENGTH AT SEVENTH ASEAN FOREIGN MINISTERS' CONFERENCE IN JAKARTA (MAY 1-9), DESPITE CONTINUING FRICTIONS WITH THE PHILIPPINES. CONFIDENTIAL

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TION WITH THE PHILIPPINES.

(2) CLIMAX OF FIVE-YEAR LONG SHIFT FROM WESTERN AFFILIATION (THROUGH ANZUK) TO NON-ALIGNMENT WAS REACHED WHEN TUN RAZAK VISITED CHINA (MAY 28-JUNE 2) TO ESTABLISH FORMAL RELATIONS.

(3) GOM'S FOREIGN AFFAIRS INITIATIVES, E.G., PRC RELATIONS, A PLUS WITH CHINESE VOTERS, BALANCED BY HOSTING ISLAMIC FOREIGN

MINISTERS' CONFERENCE (JUNE 20-25) AND BY EFFORTS CREATE ISLAMIC COMMONWEALTH WHICH POPULAR WITH MALAYS.

(4) CLOSER TIES WITHIN ASEAN REMAIN A KEY ELEMENT IN GOM'S POLICY. RELATIONS WITH MANILA, HOWEVER, WORSENERD DURING PAST THREE MONTHS AS RAZAK REBUFFED PRESIDENT MARCOS' EFFORTS TO DRAW HIM INTO DISCUSSIONS WHICH WOULD LINK PHILIPPINE CLAIM TO SABAH WITH MUSLIM INSURGENCY IN SOUTHERN PHILIPPINES. HOWEVER, IF SITUATION VIS-A-VIS PHILIPPINES REACHED POINT WHERE UNITY OF ASEAN WERE THREATENED, WE WOULD EXPECT TUN RAZAK TO MAKE AT LEAST SOME EFFORT TO SAVE IT.

3. PROBLEMS:

A. WE ARE BEGINNING TO PERCEIVE FLAW IN HERETOFORE EFFECTIVE GOM MECHANISM FOR SELF-CRITICISM ATTRIBUTABLE TO DEPARTURE FROM POLITICAL SCENE OF TWO OF RAZAK'S MOST TOUGH-MINDED COLLEAGUES. FIRST WAS TUN ISMAIL, FORMER DEPUTY PRIME MINISTER KNOWN FOR HIS HONESTY, INTELLIGENCE, AND WILLINGNESS TO BANG HEADS TOGETHER, WHO DIED LAST AUGUST. SECOND, FORMER FINANCE MINISTER TAN SIEW SIN, ONCE A STRONG CONSERVATIVE ECONOMIC AND POLITICAL FORCE, WHO RESIGNED ON APRIL 8 BUT HAS BEEN EFFECTIVELY OUT OF MINISTRY SINCE LAST DECEMBER. WITHOUT THESE TWO TO GUARD AGAINST SHORT-TERM POLITICAL EXPEDIENT DECISIONS, REMEDIAL MEASURES DEALING WITH FOLLOWING PROBLEMS MAY NOT BE AS EFFECTIVE AS IN THE PAST.

(1) WITH PRICES RISING CONTINUOUSLY DURING PAST YEAR AT 24 PERCENT RATE GOM FACES GROWING DIFFICULTIES FOR CRITICAL SOCIO-ECONOMIC PROGRAMS. YET SO FAR ANTI-INFLATION MEASURES HAVE BEEN INEFFECTUAL BECAUSE OF EFFORT TO AVOID POLITICALLY UNPOPULAR ACTIONS.

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R 040847Z JUN 74
FM AMEMBASSY KUALA LUMPUR
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C O N F I D E N T I A L SECTION 2 OF 2 KUALA LUMPUR 2596

CINCPAC FOR POLAD

(2) FAILURE TO CONTROL INDIVIDUAL CABINET MINISTERS WHOSE PERFORMANCE IS NOT UP TO STANDARD OR WHO ARE OVERLY HEAVY-HANDED IN MANIPULATING THEIR OFFICES FOR PERSONAL POLITICAL GAIN. (E.G., HOME MINISTER GHAZALI SHAFIE WHOSE CLUMSY MANIPULATION OF ANNOUNCEMENTS RELATED TO ANTI-INSURGENCY OPERATIONS HAS WEAKENED GOVT'S CREDIBILITY IN THIS AREA; DATUK HARUN, CHIEF MINISTER SELANGOR AND LEADER UMNO YOUTH, WHOSE ALLEGED CORRUPTION APPROACHING SCANDALOUS PROPORTIONS. THERE IS ALSO PROBLEM OF SABAH CHIEF MINISTER TUN MUSTAPHA WHOSE INFLUENCE WITH RAZAK SEEMS TO BE INCREASING IN RECENT MONTHS.)

(3) RACIAL ISSUES ARE RELATIVELY DORMANT AT THIS MOMENT,
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BUT INTEGRATION OR RECONCILIATION OF MALAY (44 PERCENT) AND CHINESE (36 PERCENT) POPULATIONS STILL PROCEEDING SLOWLY AND OUTBREAKS OF VIOLENCE ARE ALWAYS POSSIBLE.

4. FOREIGN POLICY:

A. CONTINUING THRUST OF POLICY IS TO INSULATE MALAYSIA FROM OUTSIDE PRESSURE OR INTERFERENCE BY ESTABLISHING FRIENDLY TIES WITH ALL CAMPS INSTEAD OF DEPENDING ON FIVE POWER DEFENSE ARRANGEMENT. AS TEMPORARY EXPEDIENT, HOWEVER, MALAYSIA HAS INFORMED BRITAIN THAT MAINTENANCE OF FIVE POWER DEFENSE ARRANGEMENT IS ESSENTIAL UNTIL ZONE OF PEACE, FREEDOM AND NEUTRALITY REALIZED IN SOUTHEAST ASIA.

B. MALAYSIA WILL CONTINUE TO WORK FOR GREATER SOLIDARITY WITH THE MUSLIM WORLD TO SATISFY CONSERVATIVE MALAYS, ATTRACT ARAB CAPITAL, AND PUSH PRESIDENT MARCOS INTO IMPROVING SITUATION OF PHILIPPINE MUSLIMS.

C. DESPITE TIES WITH CHINA AND OTHER COMMUNIST COUNTRIES AND PARTICIPATION IN NON-ALIGNED NATIONS CONFERENCES, MALAYSIA REMAINS FIRMLY ANTI-COMMUNIST AT HOME BECAUSE OF THE LINGERING CHINESE COMMUNIST INSURGENCIES ALONG ITS BORDER WITH THAILAND AND IN SARAWAK. IN FACT, RECOGNITION OF PRC--TO ACCOMPANIMENT UNPRECEDENTED POLITICAL FANFARE--REGARDED BY MANY PRIMARILY AS STRATEGY TO ISOLATE COMMUNIST INSURGENTS AND STRENGTHEN IDENTIFICATION OF LOCAL CHINESE COMMUNITY WITH MALAYSIAN INSTITUTIONS.

5. PROBLEMS AND OPPORTUNITIES FOR US:

A. MALAYSIA CONTINUES TO SEEK SUCCESSFULLY AMERICAN INVESTMENT. DESPITE MORE INSISTENT DEMANDS FOR NATIONAL PARTICIPATION IN INDUSTRY, US INVESTMENT LIKELY CONTINUE RAPID GROWTH.

B. GOM WOULD LIKE US OUT OF THE INDIAN OCEAN, SINCE IT FEELS NO THREAT FROM THE USSR AND THINKS US DEPARTURE COULD CREATE SUFFICIENT INTERNATIONAL PRESSURE ALSO TO FORCE OUT RUSSIANS. THIS VIEW WILL DETERMINE MALAYSIA'S ATTITUDE TOWARD MILITARY COOPERATION, INCLUDING OVERFLIGHTS AND SHIP VISITS, AND SPECIFICALLY RULES IT OUT AS A SUPPORT OR STAGING AREA FOR

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INDIAN OCEAN OPERATIONS.

C. LAW OF THE SEA MATTERS TEND TO PLACE US AND MALAYSIA ON OPPOSING SIDES. WHILE PRESSURES WE CAN BRING TO BEAR ON LOS ISSUES ARE LIMITED, GOM WILL PREFER FOR TIME BEING NOT TO PUBLICIZE OR EXACERBATE DIFFERENCES.

D. THERE ARE CONTINUING MODEST BUT USEFUL AREAS FOR COOPERATION IN TRADE AND FINANCE (INCLUDING MILITARY SALES), AND IN POLITICAL ISSUES OF MUTUAL CONCERN.
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